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with the assistance of
Ralph Bradley

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City of Boston

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Mayor

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September 27, 1977

Property Revaluation in Massachusetts: A Look at its Consequences in the Cities

By: Raymond G. Torto with the assistance of Ralph Bradley

I. Introduction

The cities and towns in Massachusetts are under a 1974 Supreme Court order to revalue their real and personal property so that assessed values are equal to the full and fair cash value of these properties. This decision, known as the Sudbury case, resulted from a class action suit brought by the "residents, taxpayers and officials" of Sudbury. At issue was Sudbury's contention that it was being penalized by reduced state aid resulting from adherence to the legal, full-value assessing standard while many other communities were not meeting this standard. Sudbury's complaint was valid. The court's assumption that justice for Sudbury required state-wide enforcement of the full-value assessment law is, however, debatable. Ironically, the 1974 and 1976 equalized valuations of the State Tax Commission have effectively resolved the state aid issue in Sudbury's favor without the enforcement of full-value assessment. Nevertheless, the Court's mandate exists and the cities and towns are in various stages of the process of revaluation.

The revaluation mandated by the Court will change the distribution of the property tax burden. For many reasons, the current assessments in most cities and towns are not only factional, but disproportionate in favor of the residential class. The assessments on the commercial and industrial sectors are at a higher ratio of assessed value to market value than is residential property. The implication of the current distribution of assessments is that a good share of the current property tax burden on commercial and industrial property will shift to the residential sector following revaluation. This paper looks at these expected shifts for the 35 cities for which data were available. It is essentially a selected extension and update of the Wheaton paper which studied the impact of

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revaluation for 257 of the 351 cities and towns in Massachusetts, encompassing 99% of the state's population.[1] In only 6 of the 257 communities did Wheaton find the tax shifting favorable to residential uses. He found, on average, a 16.3% initial impact increase in the tax bills of residential property, with a concommitant decrease of 23% in the tax bills for industrial property, 12% for commercial property and 32% for personal property.[2] Wheaton found, however, that the average impact data concealed an important trend. "In almost all cases it is the larger, older, industrial cities and towns that are affected most by revaluation (p.5)." This is because these cities have large proportions of industrial and commercial property and, hence, the tax shifting results in above average increases in the typical residential tax bill. Wheaton notes in his study that it is precisely these cities which have a disproportionate number of low-income residents. Hence, the "net effect of this (tax bill) shifting will be to make the property tax still more regressive. (p.5)"

II. The Impact of Revaluation in the Cities

The Wheaton study highlights the fact that the effects of revaluation will be felt most severly in the cities of Massachusetts and, in particular, in the older, industrial cities. This calls for a more intensive analysis of revaluation effects in these cities, which is made possible by the 1975 equalization survey data provided by the Department of Corporations and Taxation. This data base is more refined than that which Wheaton used because it allows analysis by eight

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[1]William Wheaton, The State-wide Impact of Full Property Revaluation in Mass. Federal Reserve Bank of Boston, May, 1975.

[2]Personal property is predominatly industrial equipment, except manufacturing machinery and inventories. Utilities, especially, have significant amounts of personal property. Generally speaking, personal property has a higher ratio of assessed value to market value than all other classes of property.

different property classes.[3]

For the cities in our sample the residential tax bill increases 16%, on average, as a result of the initial impact of revaluation.[4] These average increases obfuscate the wide variations in impacts that exists for each city or town. For 35 cities, for instance, the average tax bill increase ranges from 0% in Melrose to 49% in Salem. Further, it is the older, industrial cities within the 35 that experience the largest tax bill shifts onto residential property. Practically all of these cities experience a shift over 20%. Unfortunately, it is in these same cities that a large share of the poorer families and individuals live.[5] The average percentage tax bill increase for all residential property by city is presented in Table A.1 in the Appendix.

The residential sector can be divided into 4 subclasses, R1's - single family units, R2's - 2 family units, R3's - 3 family units and R4's - 4+ family units.

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[3]Our focus for this paper is on initial impact of revaluation. This means we do not consider the capitalization effect on the value of property due to the increased (decreased) tax burden. We will calculate the "steady state" estimates in a later study. We are assuming that the method of valuation is the sales/market value approach. Such was the method employed by the Department of Corporations and Taxation in its 1975 equalized valuation study which is the data base for this study. For the Department's methodology see Dept. of Corporations and Taxation 1976 Equalized Valuations of Mass. Cities and Towns: Selected Tax Base Information. April, 1977, pp.86-95.

[4]The cities for which no data were available are Revere, New Bedford, Somerville & Everett. All of these cities showed tax bill increases for residential property of greater than 25% in the Wheaton study and, hence, if data were available, we could expect their addition to increase the shift percentages.

[5]The correlation coefficient between the percentage share of commercial and industrial property in a community and the percentage share of poverty population in the community is +.59.

The tax bill shift within the residential sector by these four classes of property as shown in Table 1 demonstrates that it is the single family home that will be most adversely affected by revaluation.[6] For the 35 cities, the average tax bill increase for R1's will be 24%, with a smaller increase for R2's and R3's and, in the fact, a slight decrease for R4's. Hence, employing averages for all residential property as a class hides some large differences within this class. The average tax shifts experienced by residential/commercial (RC) property, commercial (C) and industrial (I) property are also presented in Table I.[7] For these properties, there is a significant increase in the tax bill of RC's of 18%, which is second only to the increase of R1's, and there are large decreases in tax bills for C and I properties. From these results it is obvious that single-family homes will be the most affected by revaluation.[8]

Since mean-average changes are affected by extreme values i.e., the shifts that will be occuring in the older, industrial cities, Table 1 also presents median percentage changes in tax bills and mean and median dollar changes in the tax bills per parcel. The conclusions do not change with the use of the median, but they do provide some further insight to the consequences of revaluation.

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[6]These numbers have to be used with caution. There is alot of dispersion around the averages. This can be seen by looking at the coefficient of dispersion for R1's as published by the Department of Corporations and Taxation (op.cit.), pp.82-85.

[7]Residential/commercial property (R/C) is generally property with a commercial establishment on the street level floor and residential units on upper floors. This category was not included in the average residential shift figures that were presented above.

[8]Alternatively, single family homes are receiving the single most benefit, on average, of the current system of property assessment.

Table I. Tax Bill Shifts Due to Revaluation: 35 Cities[1)]

Property Class	R1	R2	R3	R4	RC	C	I
mean % change in tax bills	+24%	+17%	+1%	-3%	+18%	-16%	-24%
median % change in tax bills	+19%	+ 9%	+4%	-8%	+17%	-12%	-13%
mean dollar change per parcel in tax bills	$+340	$+209	$+15	$-198	$+1,078	$-1,556	$-5,629
median dollar change per parcel in tax bills	$+258	$+165	$+65	$-355	$+ 278	$-1,024	$-5,621

1) The shifts calculated here assume the tax levy remains constant for each city in the sample. Not shown here is the shifts from personal property. These are included in the individual city shifts presented in the Appendix.

Source: Property Revaluation in Massachusetts: A Look at its Consequences in the Cities, by Raymond G. Torto with the assistance of Ralph Bradley, September 27, 1977. Office of Deputy Mayor James V. Young, City of Boston.

The averages in Table I hide the tremendous difference between cities in terms of the consequences of revaluation. The consequences of revaluation for each of the 35 cities by class of property is given city by city in Tables A.II and A.III. Assessment studies within cities also show some wide differences in the consequences of revaluation within classes of property. Hence, the average shift percentages for a city or town must be used carefully. For instance, one study for Boston has predicted residential tax bills to increase 20%, on average, but to range as high as 126% for one of Boston's neighborhoods.[9]

In sum, it is obvious that revaluation will cause tremendous tax burden shifts between classes of property and even within classes of property. The effects will be far reaching; certainly businesses will have a windfall gain in profits from the reduced tax burden, which some theorize will provide an economic development boom. Further, revaluation can bring about greater equity within classes which is a positive result. But the question can be raised as to whether there need be equity between classes? If the answer to that question is no, then a policy option which makes revaluation less harsh for residential taxpayers, particularly those in the older industrial cities, is needed.

III. Options for Mitigating the Consequences of Revaluation.

To mitigate the consequences of revaluation there are two major (and not mutually exclusive) policy options available. One is to reduce the reliance of the cities and towns on the property tax. This can be accomplished by allowing cities and towns other sources of raising their own revenue and/or by increasing the amount of state aid to cities and towns.[10] Since the former has limited potential, most people look for additional revenue from the state as one way of

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[9]See Daniel M. Holland and Oliver Oldman. "Estimating the Impact of Full Value Assessment on Taxes and Value of Real Estate in Boston" revised 2/23/76. mimeo. Also see Kenneth G. Cooper & Robert M. Weinberg. "Simulating the Economic Impacts of Revaluation in Boston." Federal Reserve Bank of Boston, 1975.

[10]A corrollary here is to shift some local costs to other levels of government. For instance, some suggest that county costs be financed by the state which would reduce the property tax burden in all cities and towns.

mitigating the effects of revaluation. This approach is often called the "pot of gold" approach. However, political pundits tell us this alternative, which would require new state tax revenues, is not possible at this time. Further, it can be argued that the "pot of gold" approach should be employed to reduce the overall level of property taxation, which is the overriding tax issue for Massachusetts, and not employed to finance revaluation.

The other alternative is to establish a classification system for property according to use and to allow differential assessment-to-market ratios in each class. Presently, such a system exists "de facto" in Massachusetts, especially in the cities, but it is extra-legal and will be eliminated by revaluation. The only way a classification scheme would be legal in Massachusetts is to have a constitutional change. Such a provision will be on the ballot in November, 1978 at which time the people will approve or not approve a change in the constitution to allow "no more than 4 classes" of real property.

The classification proposal on the ballot in November 1978 reads as follows:

Article of Amendment.

> Article IV of chapter 1 of Part the Second of the Constitution is hereby amended by inserting after the words "and to impose and levy proportional and reasonable assessments, rates and taxes, upon all the inhabitants of, and persons resident, and estates lying, within said Commonwealth" the words:--, except that, in addition to the powers conferred under Articles XLI and XCIX of the Amendments, the general court may classify real property according to its use in no more than four classes and to assess, rate and tax such property differently in the classes so established, but proportionately in the same class, and except that reasonable exemptions may be granted.

Besides the fact that classification could help mitigate the tax bill shifts we saw above, there are a number of other arguments presented in its favor. The major one is that business property because it is income producing, has a greater ability to pay, than especially 1, 2 and 3 family units and, therefore, should be assessed at a higher rate. Further, housing is a necessity and a property tax on housing is akin to a sales tax on housing services. This certainly is not consistent with the philosophy of the sales tax in Massachusetts which exempts

such necessities as food.

It can also be argued that revaluation without classification will have a detrimental effect on the wealth holdings of the middle class in Massachusetts. Most of the middle class have, as their major wealth-holding, the value of their home. Increased tax burden's on these homes will reduce thier market value and erode wealth holdings. In a study of the effects of the 1967 revaluation in San Francisco, it was found that property values declined by 13 to 17 times the changes in the tax burden.[11] Further, it was shown that the larger the increase in tax burden, the greater was the multiplier on the tax change that determined the decrease in value. If this result applies in Massachusetts, than the greatest effect will be on R1's.

In summary, revaluation is coming. The tax shifts described herein will occur unless the most likely option, classification, is allowed. But, to date, classification is just a concept, and the particulars of this concept must be prepared. The next paper in this series will address these particulars.

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[11] R. Stafford Smith, "Property Tax Capitalization in San Francisco" National Tax Journal, June, 1970, p.177.

Appendix to

Property Revaluation in Mass: A Look at its Consequences in the Cities

data sources:

1976 Equalization Survey. Department of Corporations and Taxation.
Municipal Financial Data; Including 1977 Tax Rates,
Massachusetts Taxpayers Foundation. 1977.

Table A. I: Percent Increase in Residential Tax Bill
After revaluation: 35 Cities

	% Increase in Tax Bill
Attleboro	7%
Beverly	6%
Boston	22%
Brockton	9%
Cambridge	31%
Chelsea	14%
Chicopee	17%
Fall River	13%
Fitchburh	5%
Gardner	10%
Gloucester	11%
Haverhill	15%
Holyoke	27%
Lawrence	32%
Leominister	5%
Lowell	23%
Lynn	21%
Malden	12%
Marlborough	25%
Medford	11%
Melrose	0%
Newburyport	.4%
Newton	5%
Northampton	9%
North Adams	9%
Peabody	9%
Pittsfield	9%
Quincy	17%
Salem	49%
Springfield	26%
Taunton	11%
Waltham	11%
Westfield	4%
Woburn	17%
Worcester	20%

Table A. II: Mean Percentage Change in Property Tax Bills After Revaluation: 35 Cities

	Property Class							
City	R1	R2	R3	R4	Rc	C	I	P
Attleboro	6.5	8.1	24.4	1.4	50.00	-23.0	-19.0	-21.0
Beverly	2.7	17.65	4.4	-32.1	-27.00	-11.0	-24.0	-29.0
Boston	75.0	36.2	-6.7	-8.1	55.00	-11.0	-20.0	-59.0
Brockton	10.9	-5.1	0.0	9.7	0.0	-20.0	-38.0	-3.0
Cambridge	41.4	57.2	41.7	1.6	1.0	5.0	-14.0	-54.0
Chelsea	13.0	13.5	21.7	13.1	14.0	-2.0	-2.0	-20.0
Chicopee	41.8	21.3	-32.1	-31.1	-31.0	-33.0	-7.0	-37.0
Fall River	23.9	9.7	6.9	-2.5	6.0	-28.0	-24.0	-41.0
Fitchburg	13.1	-5.5	-7.1	-12.9	44.4	-12.0	-28.0	-8.0
Gardner	16.5	14.8	-33.3	-7.4	-31.0	-29.0	-20.0	-3.0
Gloucester	9.9	9.7	10.8	26.5	6.0	8.0	-45.0	-3.2
Haverhill	14.0	22.9	20.5	12.2	-7.0	-15.0	-59.0	-38.0
Holyoke	49.1	52.9	46.4	-38.0	19.0	-43.0	-31.0	-48.0
Lawrence	43.5	56.7	18.7	-9.1	0.0	-41.0	-13.0	-41.8
Leominster	8.3	0.0	0.0	-3.0	-4.0	10.0	-31.00	-17.0
Lowell	35.6	25.1	26.1	-12.1	-11.0	-29.0	-56.0	-41.0
Lynn	41.5	2.6	-3.3	1.0	N.A.	-7.0	-65.0	-30.0
Malden	21.3	4.3	0.00	11.7	17.0	-15.0	-28.0	-55.0
Marlborough	30.5	4.1	35.7	18.3	-6.0	-23.0	-42.0	-30.0
Medford	-12.3	11.9	-1.5	-25.0	7.0	-28.0	-30.0	-49.9
Melrose	-2.1	-4.7	-7.6	30.0	12.5	-2.5	27.0	-28.0
Newburyport	-1.4	5.6	11.1	7.1	N.A	7.0	-11.00	-28.0
Newton	4.0	N.A.	N.A.	35.1	N.A.	3.0	-12.0	-56.0
North Adams	18.8	2.6	-16.6	-22.6	22.0	6.0	-8.0	-26.0
Northampton	12.4	12.2	8.3	9.0	10.0	-16.0	-26.0	-16.0
Peabody	2.7	11.0	0.0	3.9	26.0	1.0	-10.0	-28.0
Pittsfield	12.2	-1.6	-9.4	5.8	-13.0	-12.0	-5.0	-26.0
Quincy	24.1	-3.4	30.1	15.6	-33.3	-37.0	-13.0	-38.0
Salem	45.3	45.0	55.6	71.5	-16.6	-4.0	-31.0	-74.0
Springfield	38.7	9.4	6.9	-8.0	N.A.	-37.0	-6.0	-33.0
Taunton	8.43	4.5	-25.0	21.0	-13.0	-5.0	-16.0	-67.0
Waltham	17.0	16.8	16.7	-12.00	-13.0	-1.0	0.0	-20.0
Westfield	3.2	2.4	0.00	15.00	-6.0	-22.0	-19.0	-28.0
Woburn[1]	158.5	-74.28	-2.3	-92.00	-28.0	-6.0	-12.0	-70.0
Worcester	34.9	12.2	-10.9	-12.0	-17.0	-11.0	-43.0	-37.0

[1] Due to the extraordinary shifts in Woburn, we double checked these figures to ensure their accuracy.

N.A. = Date not available.

Source: Property Revaluation in Massachusetts: A Look at its Consequences in the Cities, by Raymond G. Torto with the assistance of Ralph Bradley, September 27, 1977. Office of Deputy Mayor James V. Young, City of Boston.

Table A.III: Mean-Average Dollar Increase Per Parcel After Revaluation: 35 Cities[1)]

City	Property Class R1	R2	R3	R4	Rc	C	I
Attleboro	$ 70	$ 78	$ 208	$ 59	$ 800	$-1129	$ -3981
Beverly	41	240	65	-1030	-531	-665	-6666
Boston	1062	535	-107	-570	3468	-3196	-8782
Brockton	161	-73	8	539	0	-1552	-6720
Cambridge	798	798	651	86	708	843	-3357
Chelsea	104	108	187	499	464	-409	-500
Chicopee	382	21	-439	-1595	-996	-261	-2469
Fall River	397	150	123	-42	104	-744	-2136
Fitchburg	137	-53	-69	-244	816	-647	-4298
Gardner	147	132	-318	-231	-588	-1045	-1429
Gloucester	126	59	111	111	96	417	-22,885
Haverhill	145	231	243	328	-135	-825	-6103
Holyoke	554	570	580	-1823	576	-2398	-6471
Lawrence	416	494	273	-201	0	-3559	-2525
Leominster	75	0	0	-127	-83	438	-3158
Lowell	321	244	297	-461	-287	-1733	-5835
Lynn	588	45	-64	68	-	-780	-15,878
Malden	258	63	0	1441	49	-1821	-5,622
Marlborough	312	39	347	1925	-417	-1330	-13,108
Medford	178	193	-37	-294	-370	-2688	-4167
Melrose	-34	-79	-145	2273	417	-116	3571
Newburyport	5	57	127	195	-	263	-1316
Newton	83	-	-	4082	-	325	-2857
Northampton	134	118	109	417	187	-622	-4074
North Adams	180	25	-170	-287	287	372	-319
Peabody	36	123	0	185	2962	136	-1239
Pittsfield	134	-14	-69	69	-447	-1024	-1852
Quincy	302	-50	327	1040	-714	-4432	-5251
Salem	698	855	1226	1346	38	-66	-6789
Springfield	318	165	67	-355	-	-2329	-867
Taunton	69	36	243	274	-769	-220	-2405
Waltham	220	192	279	-523	-443	-137	-194
Westfield	33	20	0	1389	-541	-780	-1462
Woburn	3301	-1820	-61	-6363	-6363	-508	-1724
Worcester	392	185	-138	316	-291	-457	-23,974

[1)] Personal property shifts are not shown here since per parcel calculations could not be made since parcel data does not exist on this.